

Message Text

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ACTION EB-07

INFO OCT-01 EA-10 ISO-00 FEA-01 AGR-10 CEA-01 CIAE-00

COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 /105 W

----- 129070

R 080933Z AUG 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6327

UNCLAS MANILA 10968

E.O. 11652: N/A

TAGS: EFIN, EIND, EINV, RP

SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: (A) STATE 165596/1/2; (B) MANILA 4986, APRIL 29, 1974;
(C) STATE 53993, MARCH 18, 1974

1. INVESTMENT STATEMENT IS AS FOLLOWS:

THE PHILIPPINES EXTENDS A SELECTIVE WELCOME TO FOREIGN INVESTMENT. FOREIGN INVESTMENT IS ACTIVELY ENCOURAGED IN "PIONEER" AREAS OR ON A 40 PERCENT MINORITY BASIS IN "PREFERRED" AREAS. IT IS WELCOME BUT NOT ENCOURAGED IN NON-PRIORITY AREAS IN WHICH EXISTING PRODUCTION CAPACITY IS INSUFFICIENT TO SUPPLY THE MARKET. IT IS NOT ALLOWED IN "OVERCROWDED" AREAS WHERE EXISTING CAPACITY IS DEEMED SUFFICIENT.

THE BOARD OF INVESTMENTS (BOI) PASSES AN ALL INVESTMENT APPLICATIONS WITH 30 PERCENT OR MORE FOREIGN EQUITY. THE BOI'S PRIMARY FUNCTION IS TO ADMINISTER THE INVESTMENT INCENTIVES ACT AND EXPORT INCENTIVES ACT. UNDER THE FORMER, THE BOI ANNUALLY LISTS "PIONEER" AND "PREFERRED NON-PIONEER" INDUSTRIES ELIGIBLE FOR INVESTMENT INCENTIVES.

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INVESTMENTS IN PIONEER AREAS MAY BE 100 PERCENT FOREIGN

OWNED, PROVIDED THEY ARE FILIPINIZED WITHIN THIRTY YEARS. IN PREFERRED NON-PIONEER AREAS FOREIGN INVESTMENT GREATER THAN 40 PERCENT IS PERMITTED IF, AFTER BEING LISTED BY THE BOI FOR THREE YEARS, THE SECTOR'S "MEASURED CAPACITY" HAS NOT BEEN FILLED BY FILIPINOS. FOREIGN FIRMS MAY REGISTER UNDER THE EXPORT INCENTIVES ACT IF THEIR EXPORTS WILL BE 70 PERCENT OF OUTPUT.

BY LAW OR BY THE CONSTITUTION A MAXIMUM PERCENTAGE OF FOREIGN OWNERSHIP IS SPECIFIED IN SEVERAL SPECIFIC BUSINESS AREAS. THE MOST IMPORTANT OF THESE ARE LAND OWNERSHIP, PUBLIC UTILITIES, AND EXPLOITATION OF NATURAL RESOURCES, LIMITED TO COMPANIES 60 PERCENT PHILIPPINE OWNED, AND RETAIL TRADE, LIMITED TO COMPANIES 100 PERCENT PHILIPPINE OWNED.

SINCE THE IMPOSITION OF MARTIAL LAW IN SEPTEMBER 1972 THE GOVERNMENT HAS TAKEN VARIOUS MEASURES TO INCREASE THE ATTRACTIVENESS OF THE PHILIPPINES FOR FOREIGN INVESTMENT IN PREFERRED AREAS. RESTRICTIONS ON THE REPATRIATION OF PROFITS AND CAPITAL HAVE BEEN EASED, MEASURES HAVE BEEN TAKEN TO ENCOURAGE THE INFLOW OF CAPITAL FOR SECURITIES PURCHASES, AND INCENTIVES HAVE BEEN ESTABLISHED TO ENCOURAGE THE LOCATING OF REGIONAL HEADQUARTERS IN THE PHILIPPINES. THE GOVERNMENT HAS ALSO CLARIFIED OR MODIFIED LAWS RELATING TO RETAIL TRADE, LAND OWNERSHIP, AND BOARDS OF DIRECTORS IN ORDER TO EASE THE TRANSITION FOR AMERICAN BUSINESS FROM THE PRIVILEGED STATUS OF PARITY UNDER THE LAUREL-LANGLEY AGREEMENT, WHICH EXPIRED ON JULY 4, 1974.

THE LEVEL OF NEW FOREIGN INVESTMENT INTO THE PHILIPPINES HAS DROPPED OFF IN THE PAST YEAR. THIS MAY BE ATTRIBUTED TO THE GENERAL ECONOMIC SLOWDOWN WORLDWIDE, TO HIGHER PHILIPPINE COSTS AS A CONSEQUENCE OF SUBSTANTIAL INCREASES IN PRICE LEVELS, AND TO UNCERTAINTIES GENERATED BY INCREASING GOVERNMENT MANAGEMENT OF THE ECONOMY. THE GOVERNMENT HAS TAKEN OVER OR REGULATED, TEMPORARILY OR PERMANENTLY, EXPORT MARKETING OF SUGAR, COPRA, WOOD PRODUCTS, AND CEMENT; HAS REQUIRED MAJOR FIRMS TO GROW RICE FOR THEIR EMPLOYEES; AND HAS TAKEN OVER THE SHIPPING OPERATIONS OF A MAJOR STEVEDORING FIRM. PRICE PRICE CONTROLS HAVE AFFECTED THE PROFITABILITY OF PRODUCTION OF FERTILIZER, PHARMA-
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CEUTICALS, AND CANNED MILK, AMONG OTHER PRODUCTS.

NEVERTHELESS, THE PHILIPPINES IS ORIENTED TOWARDS A PRIVATE ENTERPRISE ECONOMY, HAS A LARGE POOL OF SKILLED AND MANAGERIAL LABOR, AND A RATIONALLY DETERMINED BODY OF ECONOMIC POLICIES ADMINISTERED BY TECHNOCRATS. ACCORDINGLY, IT OFFERS ATTRACTIVE INVESTMENT OPPORTUNITIES FOR FOREIGN INVESTORS.

2. INVESTMENT STATISTICS:

DATA ON A AND C HAVE BEEN PUBLISHED IN THE SURVEY OF CURRENT BUSINESS, SO IN ACCORDANCE WITH INSTRUCTIONS, EMBASSY IS PROVIDING DATA ONLY FOR B.

THERE ARE NO AVAILABLE FIGURES FOR BOOK VALUE OF DIRECT INVESTMENT IN PHILIPPINES. HOWEVER, CENTRAL BANK SINCE JANUARY 21, 1970, HAS MONITORED CAPITAL FLOWS. IT REPORTS \$398 MILLION IN EQUITY INVESTMENT SINCE THEN, OF WHICH \$261 MILLION IS BETWEEN MARCH 15, 1973, AND JUNE 30, 1975. ONLY COUNTRY FOR WHICH THESE FIGURES APPROXIMATE TOTAL EQUITY INVESTMENTS IS JAPAN, FIFTH LARGEST INVESTOR WITH \$69 MILLION, EMBASSY ESTIMATE, UTILIZING CENTRAL BANK FIGURES TO SUPPLEMENT EMBASSY ESTIMATE REPORTED REF-TEL B, IS THAT TOTAL DIRECT INVESTMENT BY ALL COUNTRIES ON JUNE 30, 1975 WAS PROBABLY BOOK-VALUED AT \$1,500 MILLION, INCLUDING THE U.S. TOP THREE OTHER COUNTRIES WERE CHINA- \$200 MILLION; SPAIN- \$85 MILLION; AND THE UNITED KINGDOM - \$80 MILLION.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN INVESTMENT, COMMERCE & INDUSTRY, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANILA10968
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750274-0578
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750870/aaaacjrm.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 MANILA 4986
Review Action: RELEASED, APPROVED
Review Authority: ellisoob
Review Comment: n/a
Review Content Flags:
Review Date: 14 FEB 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 FEB 2003 by ReddocGW>; APPROVED <02 MAR 2004 by ellisoob>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FOREIGN INVESTMENT CLIMATE AND STATISTICS
TAGS: EFIN, EIND, EINV, RP
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006